Boardwalk Equities Inc.

1999 Annual Report

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Annual General Meeting

The Annual General Meeting of the Shareholders of Boardwalk Equities Inc. will be held in the Calgary Petroleum Club, Calgary, Alberta at 3 p.m. (Calgary time) on Tuesday October 26, 1999.

Boardwalk Equities Inc.

1996 – 1999 FAST FACTS

(000's except per share)	1996	1997	1998	1999
Total revenues	32,800	51,100	108,200	186,000
Revenue producing properties				
Rental income	14,434	29,078	75,407	140,590
Rental guarantee income	1,584	–	–	–
	16,018	29,078	75,407	140,590
Operating expenses				
Revenue producing properties	5,631	10,632	27,276	46,930
Financing costs	7,392	13,683	26,055	46,401
Amortization	1,780	3,481	11,169	26,082
	14,803	27,796	64,500	119,413
Earnings before corporate charges	1,215	1,282	10,907	21,177
Cash flow before corporate charges	2,995	4,763	22,076	47,259
Sales of properties held for development and resale				
Revenue	16,735	22,031	32,768	45,382
Cost of sales	14,899	14,892	21,273	28,532
Income before corporate charges	1,836	7,139	11,495	16,850
Corporate charges				
Administration	226	2,325	6,844	10,444
Large Corporations Tax	474	1,089	1,878	2,414
Deferred income taxes	1,253	2,703	5,693	10,362
	1,953	6,117	14,415	23,220
Net earnings	1,098	2,304	7,987	14,807
Earnings per share – fully diluted	0.05	0.08	0.20	0.32
Cash flow from operations	4,131	8,488	24,849	51,251
Cash flow per share – fully diluted	0.16	0.30	0.63	1.11

Balance Sheets

	1996	1997	1998	1999
Assets				
Revenue producing properties	99,263	344,634	856,427	1,064,781
Properties held for development and resale	6,820	18,338	30,819	28,882
	106,083	362,972	887,246	1,093,663
Other assets	8,138	69,491	42,640	54,146
Total assets	114,221	432,463	929,886	1,147,809
Mortgage payable	94,651	310,342	645,652	867,757
Other liabilities	4,646	33,982	66,909	42,843
	99,297	344,324	712,561	910,600
Shareholders' equity	14,924	88,139	217,325	237,209
Total liabilities and shareholders' equity	114,221	432,463	929,886	1,147,809
Common shares outstanding (000)	26,780	31,628	45,500	46,555
Share price May 31, ($)	3.75	9.88	22.00	16.00
Market capitalization ($Mm)	0.100	0.312	1.001	0.745
Number of units	2,383	8,810	19,507	22,467
Real estate asset value per unit	45	41	45	49
Mortgage payable per unit	40	35	33	39
Net rentable square feet (000)	1,871	7,590	16,500	18,810
Real estate asset value per square foot	57	48	54	58
Mortgage payable per square foot	51	41	39	46
Average net rentable SF per unit	785	862	846	837
Mortgage weighted average interest rate	7.98%	6.92%	6.45%	6.33%

Solid Growth

ublicly traded company, Boardwalk Equities Inc.,
ration for proceeds totalling $75,000 plus Initial
proceeds of $200,000
ty

ty
6 per share)
increase of 925% over 1994

6 per share), an increase of 208% over 1995
an increase of 154% over 1995

erty acquisitions totalling $255 million
0 per share), an increase of 105% over 1996
an increase of 110% over 1996

perty acquisitions totalling $523 million
300 Index, effective February 20
63 per share), an increase of 193% over 1997
an increase of 247% over 1997

roperty acquisitions totalling $173 million
11 per share), an increase of 107% over 1998
, an increase of 85% over 1998

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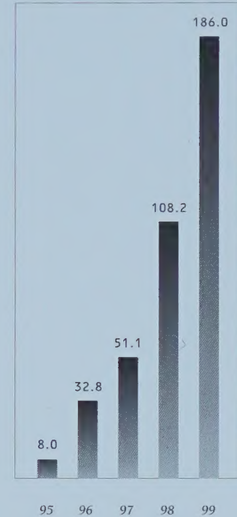
Boardwalk Equities Inc.

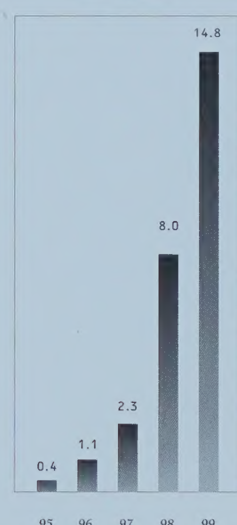
At A Glance

Revenue
Millions of Dollars

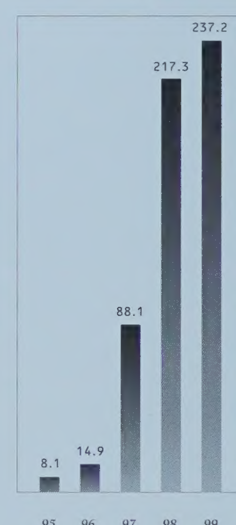


Cash Flow
Millions of Dollars

Net Earnings
Millions of Dollars

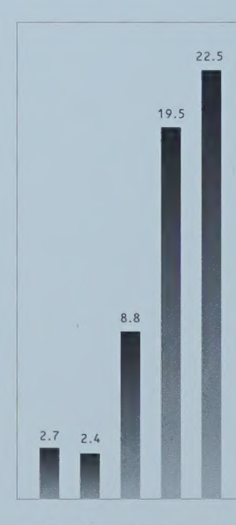


Shareholders' Equity
Millions of Dollars



Total Assets
Millions of Dollars

Number of Units
Thousands



1999 Marks Five Years of Solid Growth

1994

July 14, 1993 The Boardwalk Group becomes a publicly traded company, Boardwalk Equities Inc., issuing 1,033,000 common shares upon incorporation for proceeds totalling $75,000 plus Initial Public Offering of 800,000 additional shares for proceeds of $200,000

Acquired $44.6 million of new real estate property

1995

Acquired $75.1 million of new real estate property

Cash flow from operations of $1.3 million ($0.06 per share)

Net earnings of $432,000 ($0.02 per share), an increase of 925% over 1994

1996

Cash flow from operations of $4.1 million ($0.16 per share), an increase of 208% over 1995

Net earnings of $1.1 million ($0.05 per share), an increase of 154% over 1995

1997

Surpassed 8,500 unit mark with real estate property acquisitions totalling $255 million

Cash flow from operations of $8.5 million ($0.30 per share), an increase of 105% over 1996

Net earnings of $2.3 million ($0.08 per share), an increase of 110% over 1996

1998

Surpassed 19,000 unit mark with real estate property acquisitions totalling $523 million

TSE announced Boardwalk's inclusion into TSE 300 Index, effective February 20

Cash flow from operations of $24.8 million ($0.63 per share), an increase of 193% over 1997

Net earnings of $8.0 million ($0.20 per share), an increase of 247% over 1997

1999

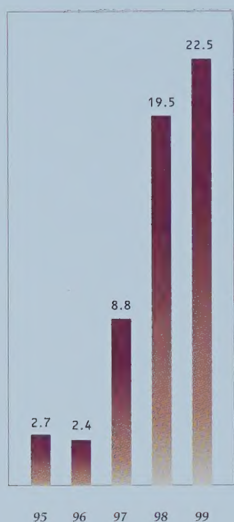
Approached 25,000 unit mark with real estate property acquisitions totalling $173 million

Cash flow from operations of $51.3 million ($1.11 per share), an increase of 107% over 1998

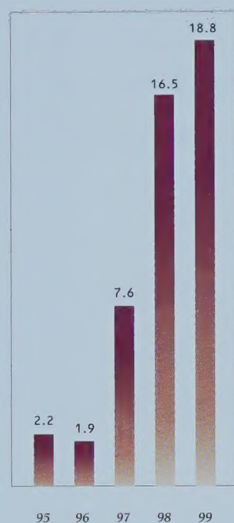
Net earnings of $14.8 million ($0.32 per share), an increase of 85% over 1998

Financial & Operating Highlights

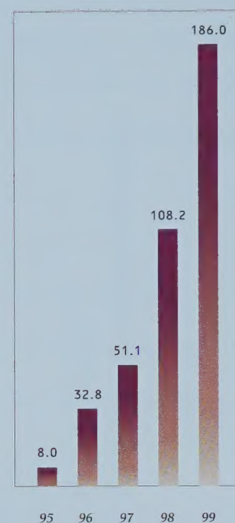
Number of Units
Thousands



Net Rentable Square Feet
Millions



Revenue
Millions of Dollars

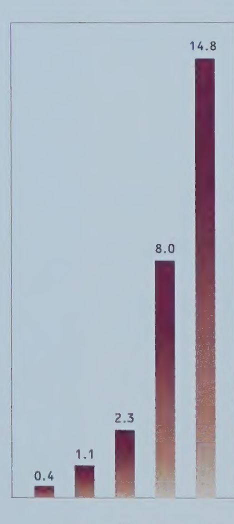


Boardwalk Continues Superior Growth Through 1999:

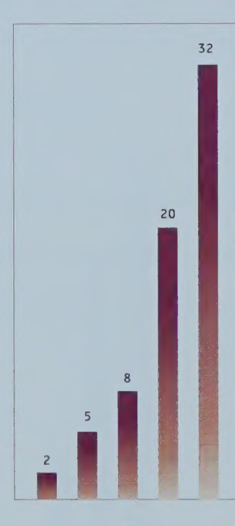
(Millions except per share amounts)		1999		1998	Change
Total revenues	$	186.0	$	108.2	72%
Operating earnings before taxes	$	27.6	$	15.6	77%
Net earnings	$	14.8	$	8.0	85%
Cash flow from operations	$	51.3	$	24.8	107%
Per share	$	1.11	$	0.63	76%
Cash flow from rental operations	$	47.3	$	22.1	114%
Per Share	$	1.03	$	0.56	84%

Cash Flow
Millions of Dollars

Net Earnings
Millions of Dollars



Earnings per Share
Cents



June 01, 1998

Acquired 2,214 units in Edmonton for $104.9 million, surpassing 20,000-unit mark

June 23, 1998

Completed new mortgage financing for $131.1 million with blended rate of 6.19% and term for all mortgages on a weighted average basis of 7.3 years

August 21, 1998

Achieved record-breaking results for fiscal 1998 - annual cash flow per share up 110% to $0.63

September 30, 1998

Acquired 1,716 units in Calgary, Red Deer, Edmonton, Saskatoon and Regina for $78.9 million

October 15, 1998

Announced completion of new mortgage financing for $89.3 million with blended rate of 5.94% and term for all mortgages on a weighted average basis of 8.5 years

October 23, 1998

Achieved record-breaking first quarter results - cash flow from operations of $0.33 per share, up 80% from last year

January 14, 1999

"Boardwalk Equities bucks energy trend" second quarter results showed six month per share cash flow up 114% to $0.57

February 05, 1999

Announced completion of new mortgage financing totalling $100 million with blended rate of 5.76% and term for all mortgages on a weighted average basis of 10.15 years

February 12, 1999

Acquired 1,063 units in Edmonton, Regina and Saskatoon for $52.5 million

April 16, 1999

Achieved record-breaking results for third quarter - cash flow from operations of $0.80 per share is up 92% from corresponding period last year

April 20, 1999

Announced completion of new mortgage financing totalling $119 million with blended rate of 5.86% and term for all mortgages on a weighted average of 8.52 years

May 11, 1999

Announced entry into Ontario market with acquisitions totalling $95.2 million and opening of Toronto office

June 4, 1999

Launched e-Commerce initiative. Announced strategic partnership with on-line grocery provider Shop HomeXpress Inc.

Letter to Our Shareholders

Reflections On the Year Past

At this time last year, following a year described as "exemplary" in our 1998 annual report, we declared a bullish outlook on the future. We are pleased to report in our 1999 annual report, that we have provided our shareholders with another year of record performance. We are once again positioned to capitalize on a solid track record and maintain a dynamic momentum of growth. In 1999, we expanded into new geographic markets, continued investing in personnel and technology, and did so largely without the necessity of injecting capital via the equity market. At Boardwalk, our mission is to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction. Achieving this is the truest measure of our success.

At first glance, 1999 was a year in which Boardwalk Equities almost doubled last year's revenues, increased earnings per share by sixty percent and invested approximately $174 million in strategic real estate acquisitions. However, we believe that our financial success is not an end unto itself. Instead, it represents a tool to continue serving our customers and improving on the definition of carefree living, while maintaining our high level of social responsibility and allowing the introduction of our philosophy into new markets.

The Results

Some of our key financial and operational accomplishments this year were:

- ❖ **a significant year-over-year increase ($1.11 per share 1999, $0.63 - 1998) in the level of internally generated cash flow**
- ❖ **the acquisition of 3,809 units to total $173 million or $45,000 per unit**
- ❖ **continued project enhancements and improved economies of scale in renovation activity in the amount of $86.3 million**
- ❖ **a reduction in borrowing costs on revenue producing properties from a blended rate of 6.45% in 1998 to 6.33% in 1999, as well as extending maturities well into the next decade**

What Makes Us Different?

Since becoming public in 1993, Boardwalk has focused on being a good company, rather than a big company. This focus has allowed us to build a solid track record, sustaining steady growth and becoming Canada's largest multi-family housing consolidator. We credit this success largely to our team's unique vision of a carefree living environment and the specific application of the following:

- ❖ **an unwavering commitment to customer service and satisfaction, seen in, for example, our 24-hour a day customer service**
- ❖ **integration of cutting-edge computer technology to maximize operating efficiencies and provide value-added services to present and future customers**
- ❖ **a sophisticated and adaptive acquisition and renovation strategy, enabling us to deliver "like-new" product at well below replacement cost**

- **minimal exposure to high cyclicality of local markets through focus on affordable housing for which there is persisting demand**
- **maintaining an optimal balance between insured, fixed low-cost mortgage and equity capital**
- **specialized teams allowing full vertical integration of our operations**
- **the formation of strategic alliances with third-party product and service providers**
- **geographic expansion into new markets, such as Ontario, thereby broadening our exposure to a more national economy**

While others may offer one or two elements of the above, Boardwalk has risen above its peers in western Canada through its unique combination of value-added services and person-centered corporate philosophy. We believe that *corporate performance* and *conscience* are not mutually exclusive, and succeed in this without compromising our social responsibility, ensuring that our practices do not result in undue financial hardship for our existing tenants. In the spirit of this commitment to community responsibility, we continue to work closely with all levels of government and community representatives.

Our Future

At Boardwalk Equities, we are optimistic about the future of our company. We see a strong relationship between comfortable, affordable housing, carefree living and the application of innovative high technology. Prior to our expansion into the Ontario real estate market, as part of our research process, we created a database covering everything from demographic statistics to video-recorded mini-documentaries of the history, condition and surrounding neighbourhood of properties under consideration. This exhaustive stage of initial information gathering is only the first step in a detailed process unequalled in our business. To ensure future prosperity, a company cannot hope for the best; it must create the best possible future by shaping the present.

With our recent expansion into new, larger markets, our opportunities have increased dramatically. Through the latter half of calendar 1999 and into the new millennium, we will maintain our relentless pursuit of value-added opportunities and utilize the financial freedom we have gained to continue the application of our tried, tested and proven strategy.

In Closing

Never before have we held more conviction in our ability to carry out our goals. Our accomplishments will provide the flexibility and freedom to ensure the ongoing success of our company. We would like to once again thank all those who have made this possible. We hope that all share our pride in what we have built and achieved together so far. Your continued support, dedication, hard work and focus, as well as your shared belief in our philosophy and objectives, have brought us this far. We look forward to a future ripe with possibility, which we will continue to strive towards with an equally uncompromising unity of purpose.

Thank you for your continued support.

On behalf of the Board,

Sam Kolias

President and Chief Executive Officer

George J. Reti

Executive Vice President

September 15, 1999

Review of Operations

"Our accomplishments will provide the flexibility and freedom to ensure the ongoing success of our company".

Review of Operations

Teamwork - Our People

This past year, Boardwalk has seen great change in terms of technological advancement and geographic diversification. The most significant asset driving the attainment of these goals is, without a doubt, our people. Boardwalk has methodically built a strong, talented team over the past 15 or so years, bringing many of our associates with us when we made the transition from a private to a public company in 1993. We believe that this persistent loyalty and dedication to our corporate goals is due largely to our belief in the intrinsic value of our people, all of whom are treated with respect and dignity. Aided by the increasing integration of technology, Boardwalk is structured as a horizontal rather than a vertical hierarchy, enabling all of us to learn from each others' experiences and further bolster our efficiencies.

As we move into the new millennium, we believe that it is this person-centered corporate culture which will provide us with the necessary tools to successfully meet new challenges, such as:

- ❖ **continue application of our human resources ethic and corporate culture across expanding geographical and technological borders**
- ❖ **integrate new technology into our administrative roles, increasing information throughout the organization thereby maximizing efficiencies while continuing to exceed current levels of customer service quality**
- ❖ **maintain the same high level of corporate cohesion among increasingly specialized teams of associates focusing on their own unique niches of expertise**

We could not conclude this discussion of Boardwalk's people without a particular recognition of our management team. Boardwalk's management team is exceptionally qualified with a wide variety of in-depth talent, experience and great enthusiasm. This team, with its individually diverse backgrounds, is characterized by entrepreneurship and original thinking. These qualities, coupled with an unusually high level of computer literacy company-wide, result in an excellent mix of dedication, efficiency and unique knowledge. The final assurance that our executives are ultimately aligned with our stakeholders' interests is our policy of remuneration entirely via stock options at market.

Boardwalk firmly believes that our people are essentially unrecorded assets. Although staff costs are accounted for as expenses on the statement of earnings, we are fully aware that without our excellent staff, Boardwalk would cease to be a going concern. A successful firm can manage without technology, despite its tremendous importance, but it would falter without quality people. Our focus will remain firmly on the customer, relying on technology as a tool to allow us to sharpen this focus. As further reinforcement, Boardwalk is continuously improving on its extensive training and mentoring program designed to assist new and existing associates. The program will ensure that there is a deep understanding of Boardwalk's vision and beliefs and the role played by each associate in achieving this vision.

Review of Operations

Technology — Boardwalk Innovations

Integrated Applications

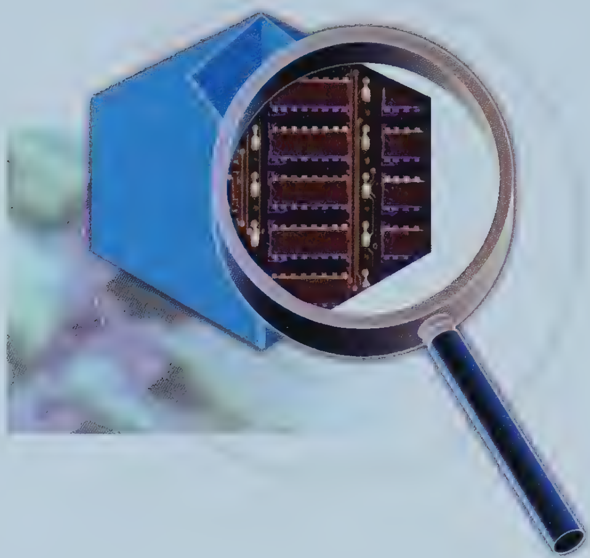
At Boardwalk, we maintain that in order to make the best possible decisions, our associates must have quick, ready access to information. Through the use of our in-house developed applications, different departmental units are able to share information effectively. For example, our property leasing department can check a suite's maintenance status prior to scheduling a tenant move-in or our accounting department can digitally drill down into the respective maintenance records to verify parts pricing and consumption.

Corporate Intranet

Boardwalk has implemented a Virtual Private Intranet utilizing the internet as its backbone, allowing each apartment complex to act as an individual profit center while maintaining a central data repository at our head office. This allows each project to quickly take rental applications, process collections and maintenance requests, allowing each building to operate efficiently. The intranet applications reside on a proprietary Web Terminal developed in-house by our Information Systems department, that is characterized by its scaleability for rapid growth as well as low maintenance requirements.

Internet

Boardwalk utilizes the internet at several different levels. We communicate information pertinent to investors, corporate data, as well as provide information to, and interaction with, our customers. Customers who have signed on to our exclusive CLUB BOARDWALK program have passwords that allow them to access their account information, enter maintenance requests, and provide feedback. This service is monitored by our customer support center 24 hours a day.



In-house Systems Analysts

We have a dedicated contingent of highly skilled analysts, who, in their capacity, support software, hardware and networking components 24 hours a day, 7 days a week, 365 days a year. This specialized team can respond to all business issues quickly and efficiently. Our Information Systems department employs 17 full-time associates, a feature typically absent from most real estate companies.

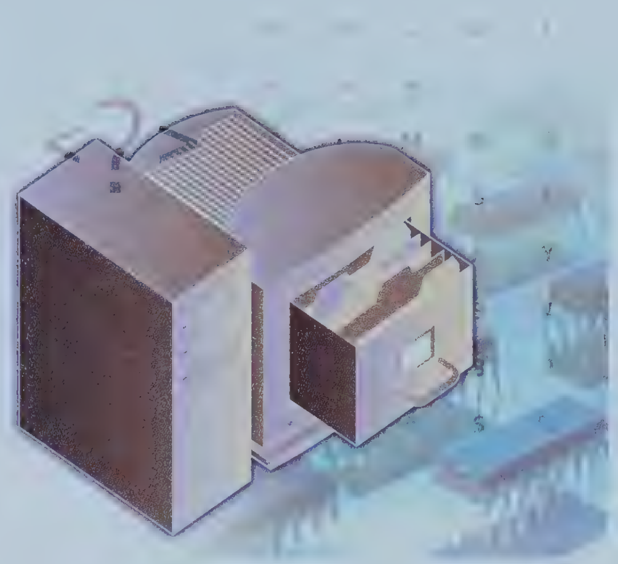
24x7x365 Call Center

The 1999 launch of Boardwalk's 24-hour, 7-day-a week, 365-days-per-year Call Center, with nationwide access via 310-WALK, improves customer service and allows our representatives to instantly respond to all types of customer inquiries. The system keeps track of numerous customer and property criteria, facilitating fast and efficient reaction by our Customer Service Representatives (CSRs).

Kiosk Services

Recognizing that only a small percentage of Boardwalk's customers currently have internet access, we have extended our internet services to all customers via the purchase of NetVenue Kiosks from Nortel Networks. These Boardwalk Tenant Machines (BTMs) allow customers to check their accounts, enter maintenance requests and provide feedback. Additionally, we will offer value added e-commerce services to our customers, supplying them with an assortment of goods and services from recognized vendors who have aligned themselves via our CLUB BOARDWALK program.

Review of Operations

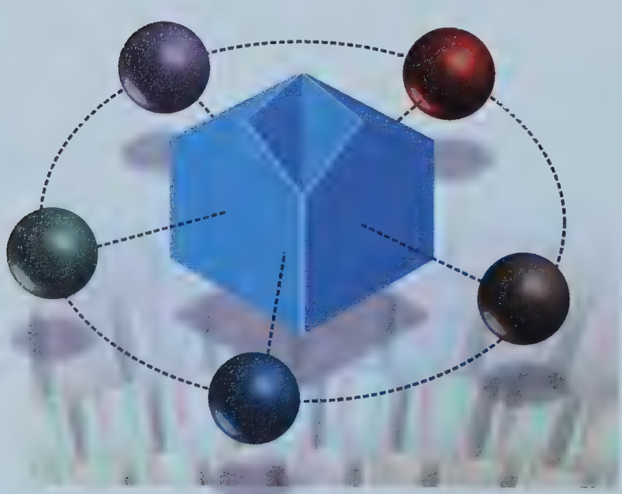


Acquisitions Database

Boardwalk's proprietary property acquisition application and database is compiled for each market we are researching. Through several different data gathering methods, we are able to build a database of owners, financial data and neighborhood information. We can query the data on several different fields to target properties that meet Boardwalk's stringent acquisition criteria, providing us unparalleled reaction time to purchasing opportunities.

Building Automation Systems

Boardwalk has utilized computerized automation to control and help realize efficiencies related to properties' mechanical heating and ventilation systems. We have realized reduced gas consumption and improved electricity efficiencies using these systems in our larger properties.

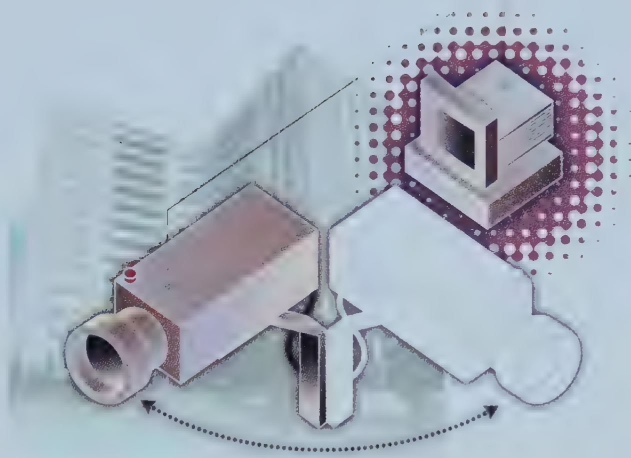


Third-Party Systems Integration

Boardwalk has integrated systems from our business partners such as our banks and suppliers – allowing quick processing of large amounts of data in a fraction of the time it would take manually. We are continuing to work with vendors and other partners to further improve efficiencies in other areas.

Security Video Surveillance

Boardwalk feels that our customers have the right to feel secure in their environment, yet maintain their individual privacy. Accordingly, through internet-based video surveillance, we monitor potential problem areas such as parkades, elevator lobbies and common hallways of many of our buildings.



Technology - Adding Shareholder and Customer Value

At Boardwalk, we develop our own systems and technology. In conjunction with industry leaders such as Microsoft Corporation and Northern Telecom, we are pioneering new applications of proprietary software revolutionary for our industry. We develop technology internally to ensure its suitability, reliability and the responsiveness of our systems to the precise nature of our business. Having our Information Systems department with a complement of programmers, web designers, internet and intranet specialists as well as hardware support, our exact technological needs can be met on a timely and cost-effective basis.

The implications of advanced technology to the enhancement of operating efficiencies are virtually limitless — as are the potential returns to customers, stakeholders and shareholders. The greatest challenge faced by Boardwalk is to maintain our focus on the pursuit of quality, carefree living while adapting our definition to accommodate the emerging possibilities of technological advancements such as interactive maintenance software or online grocery service providers. We believe that by setting out specific goals and following up regularly with progress reports, we will continue to strive towards our ultimate goal of providing the best customer value for the best price. Last year we set out several objectives in the area of technology, and we are pleased to report on the progress made through 1999:

Technology That Meets Our Needs

1999 Objectives vs Performance

Intranet

Objective: **implement interactive software to streamline administrative operations and increase custcmer service**

Performance: **launched web browser forms at several test sites**

Improved customer service

Objective: **institute a system to increase communication between customers and Boardwalk**

Performance: **implemented 24-hour a day customer service**

Review of Operations

On-site BTM System

Objective: **implement on-site BTM system in 1999**

Performance: **BTM system is currently being tested at specific locations throughout Boardwalk's portfolio**

tenants will be able to enter maintenance requests directly into the BTM

maintenance associates will be able to make the necessary repairs more quickly and immediately input the completed job order directly into BTM

tenants will be able to inspect their own maintenance ledger on the BTM for faster reference about the status of repair jobs

Objective: **plan to provide access to on-line vendors**

Performance: **established initial strategic partnerships with recognized third-party service and product providers**

We believe that it is crucial to clearly communicate technology's role in our business. Ultimately, its purpose is to provide advanced tools for our customers to gain greater convenience and efficiency, and to optimize operating efficiencies to generate increased capital for re-investment in the company. Boardwalk is fully committed to use technology to add value through improved efficiencies, diversified services and enhanced equity market interest, and never as an alternative to irreplaceable human capital.

The Boardwalk Advantage — Our Portfolio

At May 31, 1999 Boardwalk Equities is acknowledged to be the dominant real estate acquisition company in western Canada. We are known for having revolutionized the real estate sector in this area of the country and as a result of our aggressive revenue-maximizing acquisition and renovation strategy, competitors in our market have been forced to improve their own product and offer a higher level of customer service. Though we are proud of these accomplishments, in Canada, overall, we still own only one out of every 100 rental units in the market. This equates to massive untapped potential for geographic expansion and diversification. We are confident that we will rise to meet this challenge due to a number of significant advantages over other market participants.

These are summarized as follows:

- **highly focused**
- **established infrastructure**
- **over 1,000 highly motivated and dedicated associates**
- **integration of unique technological innovation**
- **specialty teams**
- **superior track record**
- **optimal use of economies of scale**
- **proven renovation formula with measurable return on equity results**
- **strong credit background**
- **high level of internally generated cash flow supported by high access to equity markets**
- **regional diversity**
- **high level of internal ownership**

Supporting the basis of our market advantage are sophisticated and adaptive acquisition and renovation strategies applied to:

- **the profile of our portfolio of properties**
- **the criteria for the selection process**
- **our aggressive capital improvement program**

The Boardwalk real estate portfolio comprises diversified, high-potential, multi-family residential accommodation, including townhouse, garden and high-rise buildings to meet market need. We base our acquisitions on the following primary criteria:

- ❖ **proven locations with access to public amenities**
- ❖ **existing infrastructure**
- ❖ **proximity to downtown core**

While these criteria do not stand out as being intrinsically different from those used by our peers, it is the process by which they are assessed which differentiates Boardwalk. Once a location is deemed to fit within our initial parameters, we examine in more detail the physical and financial aspects of the property from our property data base. This examination is supplemented by outside consultants' reviews, engineering and environmental studies, and often, third-party appraisal reports. This sophisticated analytical process has resulted in Boardwalk significantly increasing its property portfolio to just under 25,000 units throughout Alberta and Saskatchewan. Of particular note this year, was the addition of 1,862 units in Ontario, either purchased or currently contracted to be purchased at year end.

The Boardwalk acquisition and development strategy can be separated into five key elements:

- ❖ **consolidate residential rental properties in existing markets**
- ❖ **refurbish these properties to like-new condition to improve tenant satisfaction and maximize rental and financing capability**
- ❖ **improve tenant services to reduce turnover and develop new ways to raise revenues and reduce costs**
- ❖ **maintain strict expense control to remain a low-cost operator**
- ❖ **collect intelligence on new markets in preparation for entering these at the appropriate time in the real estate cycle**

Boardwalk's capital improvement program is a key element in our continual striving to add new customer, stakeholder and shareholder value to existing and potential properties in our portfolio. This past year, we utilized in excess of $86 million on capital enhancements, resulting in both internal and external improvements. The benefits of this program have only just begun to register in our operational results with average rents increasing by 12% from the prior year's recorded amounts.

Examples of capital upgrades include the following:

- ❖ **new architectural features such as sloped roofs on formerly flat-roof buildings**
- ❖ **the addition of exterior balconies, new windows and doors**
- ❖ **upgraded floor coverings in hallways and individual suites**
- ❖ **installation of new appliances**
- ❖ **redecoration of both interior and exterior building components**

The end result of these capital improvements will be 'like new' product in older, more established locations - a highly desirable result from all perspectives. Adding value and decreasing the expense of upgrades is our ability to apply economies of scale to our refurbishment program. Due to the size of our portfolio and the critical mass enjoyed by Boardwalk, these capital improvements and refurbishing programs can be implemented at a fraction of the cost that would be experienced by our competitors. Most materials are sourced directly from the manufacturers and purchased at a discount in bulk quantities, and much of the installation and on-site work is completed by Boardwalk associates. This provides even greater efficiencies in terms of property turnaround and cost-effectiveness, and results in a superior product at a lower overall base cost. This, in turn, allows us to pass on further value to you, our shareholders and customers.

Review of Operations

Partnership - Our Partners in Business

At Boardwalk, we apply the same ethic of mutual respect and shared responsibility which characterizes our shareholder and associate relations to our relationship with our suppliers and contractors, our financiers and the Canada Mortgage and Housing Corporation ('CMHC'). We acknowledge that without the benefits produced by fostering these relationships over the span of the last 15 or so years, the success Boardwalk is enjoying today would not have been possible. We are extremely proud of having had, in many cases, a pivotal role in allowing many of these business associates and partners to grow and flourish along with our company. The unwavering commitment to meet or exceed our exacting standards on the parts of these suppliers and contractors is tantamount to Boardwalk's continuing ability to add new value to each expense dollar.

We equally acknowledge the many financial institutions which have been supportive of Boardwalk over the years. As with all of our business relationships, our association with institutions such as CMHC has been rewarding for both parties. In particular, through our association with CMHC, we have been able to help fulfill CMHC's mandate of "helping to house Canadians", and we are proud to be in a position to provide excellent housing value for our customers. Boardwalk enjoys key account status with CMHC and represents one of the largest insured accounts in Canada. This allows us access to the debt markets under highly favourable terms and to maintain a very low cost of capital in comparison to our peers.

Responsibility — Boardwalk and Our Community

This past year, as in all years, Boardwalk has strived to maintain the balance between the needs of our customers, our shareholders and our communities. Our commitment to our local communities, to the environment, and to the provision of access to affordable housing for all Canadians has earned us the reputation as "turnaround specialists".

The benefits of this strategy are twofold:

- **from a shareholder perspective, upgrading and renovation programs produce significant positive adjustments to historical rent levels and property values**
- **from a community perspective, Boardwalk's investments produce safer, revitalized and more prosperous neighbourhoods while we consistently manage to adhere to our promise not to cause undue financial hardship to residents**

To demonstrate our commitment to this area, we have established a separate Community Development and Social Services Department. The aims of this department are:

- **to help foster collaboration with government and community agencies to provide affordable housing**
- **to deal directly with current Boardwalk customers who are in financial need**

During 1999, Boardwalk was involved in a variety of affordable housing projects, including projects aimed at the physically handicapped, victims of family violence, reformed federal offenders, and refugees. Many of these housing units are being subsidized by Boardwalk, although we are under no obligation to do so, and each year, we increase the number of units we make available to subsidy programs.

We believe morality and profitability should go hand in hand, and we are keenly aware of the human element in our business. In fact, it is our policy not to induce hardship through the implementation of rental increases. One way we addressed the concern brought about by low vacancy rates and rising rents was by voluntarily instituting a Boardwalk policy of a maximum $50 per rental increase to existing tenants. Boardwalk is also working together with social service agencies to assist customers who are in financial need. We often refer residents to community services and work together with these agencies to help our customers.

At year-end 1999, approximately 450 of our rental units are occupied by residents in government-sponsored rent supplement program. Although this may not translate directly into higher yields for the company, we firmly believe that it is our civic responsibility to dedicate a portion of our resources to subsidizing tenants in need. This provides more Canadians faced with challenges, financial or otherwise, with access to convenient, carefree living. This is why we also allocated funds to increase accessibility for the physically challenged. Many of our associates provide added value to our business by volunteering and participating in community events such as Boardwalk-sponsored garage sales where all proceeds raised go to a local charity. Boardwalk also has a long-standing tradition of strong and consistent representation on industry boards and committees, including civic and provincial apartment associations and those which help the homeless. We believe that in addition to the direct benefits to the local communities we help, close involvement with community allows us to maintain close ties to individual Canadians, ensuring that Boardwalk never loses sight of the overwhelming importance of personalized customer service.

There can be little or no dissension regarding the symbiotic nature of man's relationship to the environment. At Boardwalk, we understand that every measure we undertake to preserve the ecological integrity of our surroundings is fully justified. We are an environmentally conscious company, reducing energy and resource consumption wherever possible and optimizing recycling facilities throughout our projects. We continue to review all of our buildings with the intent to establish energy improvement programs. Many of the capital enhancements previously noted assist in this process, helping to conserve irreplaceable resources for future generations, and adding future value to present properties at the same time.

In closing, Boardwalk feels that being a responsible member of the community through both corporate and personal activities acts to facilitate our continued success and maintain the careful balance of interests between our communities, our customers and our shareholders. We are proud to be known as "a business with a conscience as well as a counting house".

Commitment — Our Stakeholders

As with our associates, Boardwalk's stakeholders are characterized by high levels of commitment and support. Historically, our shareholders have experienced virtually unprecedented performance from a real estate company, and in turn, Boardwalk has been rewarded through excellent support in the equity markets. Our philosophy relative to our stakeholders parallels that for our associates — do unto others as you would have them do unto you. Because management and associates have such a significant level of ownership within the Company, it stands to reason that all decisions made relative to future operations are made specifically for the benefit of both the customer and the shareholder.

Boardwalk's stakeholders cover a broad spectrum of individuals, investors and financial institutions, with over 50 major institutional investors on record as owners. We view each and every shareholder as extremely important to the ongoing success of the Corporation, and the support shown by each of our shareholders through both buoyant and testy markets has been greatly appreciated. Our focus will remain on maximizing cash flow on a per share basis, to ensure that existing stakeholders receive the best value for their investment.

The February 1998 listing of Boardwalk as a TSE 300 Index company placed many index funds on Boardwalk's shareholder list. We aim to continue earning the support of these institutions through meeting our objectives in a responsible and consistent manner. As we continue to grow, we are certain that many of our stakeholders will grow with us and increase their positions accordingly.

Our Financial Condition

"Our financial success enables us to continue serving our customers, improving the definition of carefree living, maintaining our high level of social responsibility and introducing our philosophy into new markets".

1999 Management's Discussion & Analysis

The following should be read in conjunction with the financial statements and the notes thereto, appearing later in this Annual Report.

Overview

Boardwalk Equities Inc. (hereinafter referred to as "Boardwalk") is a fully integrated, customer-oriented multi-family residential real estate owner and manager. Boardwalk is Canada's largest publicly traded, multi-family residential corporation and specializes in the acquisition, operation, value enhancement and selling of multi-family residential properties within Canada. The majority of Boardwalk's portfolio continues to be located in western Canada, specifically in the provinces of Alberta and Saskatchewan. Boardwalk's head office is situated in the city of Calgary; however, the company is continuing expansion across Canada beginning with recent acquisitions in the Ontario marketplace. At year-end May 31, 1999, Boardwalk has recorded assets in excess of $1 billion. It owns 100% interest in over 200 properties comprising approximately 19 million net rentable square feet. Subsequent to year-end May 31, 1999, the Corporation acquired an additional 13 properties.

Operating and Capital Strategies

Boardwalk's operating strategy is best described through the Corporation's Mission Statement – *"to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction"*. Boardwalk believes that by following this operating strategy, it will continue to focus on enhancing value by generating sustained growth in the Corporation's overall operating cash flows and creating realizable appreciation in real estate value. We can achieve this goal by applying fully integrated core strategies of focused investing, superior property management, implementation of efficient use of technologies and strategic asset management to the following:

- **opportunities to acquire accretive, existing multi-family residential properties throughout Canada**
- **review and where required, upgrade existing services and facilities to increase property value and customer satisfaction**
- **maximization of cash flows from existing properties**
- **striving to stabilize new projects that increase cash flows commensurately**
- **continued review of the Corporation's portfolio in search of mature properties in attractive markets, maintaining focused sale discipline and reinvesting all released equity back into the portfolio to assist in operations and acquisitions programs**

Boardwalk believes that the implementation of these multi-dimensional strategies will help ensure continued overall growth for the Corporation in the short, medium and long terms.

1999 Management's Discussion & Analysis

The Corporation's operating strategy is supported by the following:

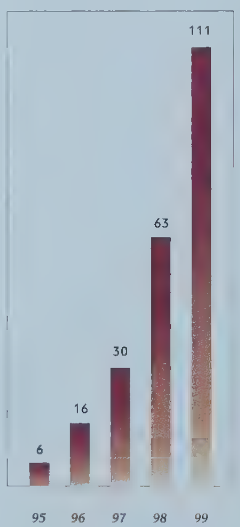
- **ensuring ample capital is available at all times for acquisitions (operations and project enhancements)**
- **utilizing suitable levels of leverage and where appropriate, optimizing the use of NHA insurance through CMHC to enhance both leverage and access to lower financing rates**
- **allocating of capital between existing project enhancements and continued new accretive acquisitions**
- **continuing to actively manage the Corporation's exposure to interest rate fluctuations**

The following discussion will attempt to provide the reader with an understanding of how these strategies affect the operating results and shareholder value of the Corporation. We will also review the related risks, opportunities and trends as well as possible impacts of these strategies on Boardwalk's future performance.

Results From Operations

1999 was another strong year for Boardwalk. The Corporation reported solid financial results which bolstered the success of Boardwalk's growth strategy. Cash flow from operations for the year ended May 31, 1999 was 106% higher than the amounts recorded in the 1998 fiscal year. A review of 1999 operations will continue to focus on year-over-year changes in the key components of cash flow from operations, and then on other key components of net income.

Cash Flow per Share
Cents



Analysis of Cash Flow From Operations

Net Operating Cash Flow was approximately $51.3 million, as compared to $24.8 million for the year ended May 31, 1998.

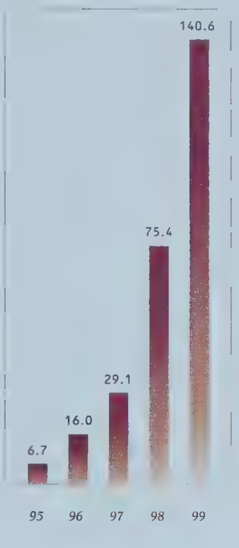
Cash Flow from Operations

As at May 31 *(thousands of dollars)*	1999	1998	Change
Net rental income	**47,259**	22,076	114%
Net margin from properties held for development and resale (PHDR)	**16,850**	11,495	47%
Cash flow from operations	**64,109**	33,571	91%
Corporate charges			
Administration	**10,444**	6,844	53%
Large Corporations Tax	**2,414**	1,878	29%
Net operating cash flows prior to changes in non-cash working capital	**51,251**	24,849	106%
PHDR as a % of net operating cash flow	**26%**	34%	

Boardwalk prepares its financial statements in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies ('CIPREC') and the Canadian Institute of Chartered Accountants of Canada. CIPREC has adopted a measurement of Cash Flow from Operations ('CFO') to supplement net income as a measure of operating performance. This is considered to be a meaningful and useful measure of real estate operating performance. Boardwalk's presentation of Cash Flow from Operations prior to changes in non-cash working capital is consistent with the definition as provided by CIPREC. This measure is not necessarily indicative of cash that is available to fund cash needs, and should not be considered an alternative to cash flow as a measure of liquidity.

Boardwalk continues to generate its cash flow from two separate revenue streams. Firstly, the Corporation's rental operation consists of long-term ownership and operation of multi-family residential housing. Secondly, Property Held for Development and Resale represents those properties which Boardwalk has selected for eventual sale. The Property Held for Development and Resale category focuses more on the sale of the specific, mature multi-family residential properties that typically have a "highest and best use" beyond that of a pure rental project. The following analysis will segregate these two separate categories and provide detail on the overall operations of each.

Rental Revenue
Millions of Dollars



Boardwalk's most stable form of cash flow is generated through the leasing of high-rise, garden and townhouse-type units. During the 1999 fiscal year, Boardwalk's rental operations generated net operating income, defined as total rental revenue less specific operating expenses, of $93.7 million as compared to $48.1 million for the same period of the 1998 fiscal year, an increase of approximately 95%. Further analysis shows that the Corporation's net rental income, as defined as net rental operating income less related financing charges, totaled $47.3 million as compared to $22.1 million for the 1998 fiscal year, an increase of approximately 114%. In generating this income, Boardwalk was able to accumulate rental revenue totaling $140.6 million as compared to $75.4 million for the 1998 fiscal year. This represents an 86% increase in overall rental revenue. The overall increase in these amounts can be attributed to Boardwalk's sustained focus on its operating strategy as well as to the continued stabilization of newly acquired accretive acquisitions.

Boardwalk continues to derive a significant portion of its net rental income from its Alberta portfolio. During the 1999 fiscal year, approximately 83% of all net rental income generated was derived from the Alberta portfolio. The remaining 17% was generated through the Corporation's overall operations in Saskatchewan.

Rental Operations — Revenues By City

Total Gross Revenues

(millions of dollars)	**1999**	1998	Change
Alberta			
Edmonton	**64.2**	33.6	91%
Calgary	**44.8**	29.2	53%
Other*	**7.2**	0.6	1,100%
Saskatchewan			
Regina	**15.0**	9.0	67%
Saskatoon	**9.4**	3.0	213%
Total	**140.6**	75.4	86%

Net Rental Income

(millions of dollars)	**1999**	1998	Change
Alberta			
Edmonton	**19.1**	8.9	115%
Calgary	**17.5**	10.2	72%
Other*	**2.9**	0.1	2,800%
Saskatchewan			
Regina	**5.1**	2.2	132%
Saskatoon	**2.7**	0.7	286%
Total	**47.3**	**22.1**	114%

**Fort McMurray, Red Deer, Grande Prairie*

1999 Management's Discussion & Analysis

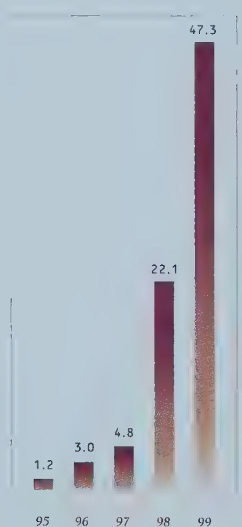
The following will provide a more detailed analysis of Boardwalk's rental operations.

Alberta

Alberta, where the majority of Boardwalk's existing assets are located, is an integral part of Boardwalk's operations as a whole. Boardwalk's largest holdings are in Calgary and Edmonton, Alberta's two major cities. Revenues generated from Boardwalk's Edmonton portfolio represent approximately $64.2 million as compared to approximately $33.6 million for the 1998 fiscal year. This represents a 91% increase over the prior year's amounts, and yet net rental income generated in the Edmonton portfolio of approximately $19.1 million is up over 115% from the $8.9 million generated in the 1998 fiscal year. Average rents for the Edmonton portfolio were $534 per month as compared to $464 for the 1998 fiscal year, an increase of 15%. The increase in revenues generated from the Edmonton portfolio can be attributed to the noted increase in the average rents, the annualization of revenues generated from properties acquired in the latter half of the 1998 fiscal year, as well as new revenues generated from 1999 property acquisitions.

Cash Flow from Rental Operations per Share
Cents

Net Rental Income
Millions of Dollars



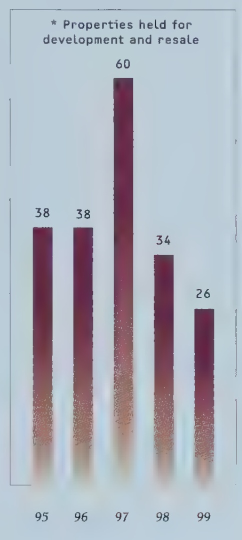
Boardwalk's next largest city with respect to asset holdings is the city of Calgary. Calgary rental operations generated approximately $44.8 million of total gross revenue for the 1999 fiscal year, as compared to approximately $29.2 million for the 1998 fiscal year. This represents an increase of approximately 53%. Net rental income for Calgary in the 1999 fiscal year was approximately $17.5 million as compared to $10.2 million for the 1998 fiscal year. This, too, is up dramatically by approximately 72% from the prior year's amounts. Average rents for Calgary's portfolio on a per unit basis were $751 per month, compared to $649 for the 1998 fiscal year, a 16% increase. As with Edmonton, the increase in these amounts is attributed to the increase in the average rents noted, the annualization of revenues generated from properties acquired in the latter half of the 1998 fiscal year as well as new revenues generated from 1999 property acquisitions.

In Alberta, Boardwalk has continued to expand its overall operations outside the major cities of Calgary and Edmonton, with holdings in smaller centers such as Fort McMurray, Red Deer and Grande Prairie. In 1999, Boardwalk generated rental revenue of approximately $7.2 million from this portfolio. This compares to $600,000 for the 1998 fiscal year. Rental income has also increased dramatically, totaling $2.9 million in the 1999 fiscal year as compared to $100,000 for the 1998 fiscal year. Rental revenue generated on a per unit basis for other properties for the 1999 fiscal year was $604 per unit, as compared to $583 for the 1998 fiscal year. Boardwalk's more significant holdings in these markets are the main reason for the reported increases.

Saskatchewan

Boardwalk's Saskatchewan portfolio continues to play a strong role in the Corporation's overall operations. As with Alberta, Boardwalk has concentrated its holdings in the province of Saskatchewan to the two major centers, these being Regina and Saskatoon. Rental revenue generated from Regina is approximately $15 million for the 1999 fiscal year, as compared to $9 million for the 1998 fiscal year, representing a 67% increase. Net rental income generated in the city of Regina for the 1999 fiscal year was $5.1 million, compared to $2.2 million for the 1998 fiscal year, a 132% increase. Similar to Regina, Saskatoon has also shown dramatic growth for the Corporation as a whole. Rental revenue generated for the 1999 fiscal year was approximately $9.4 million, compared to $3 million for the 1998 fiscal year, an increase of 213% over last year.

PHDR* % of Net Operating Cash Flow
Percent



Net rental income generated from 1999 was $2.7 million, compared to $700,000 for the 1998 fiscal year, a 286% increase. Increases are once again the result of stabilization, annualization and the acquisition of new properties.

On a per unit basis, Boardwalk's rental portfolio in Regina had an average rent per month of $496, compared to 1998's amount of $472, representing a 5% increase.

The average monthly rent for Boardwalk's Saskatoon portfolio was approximately $559, up over 17% from the $479 recorded in the 1998 fiscal year.

The 1999 fiscal year also witnessed the strategic movement of Boardwalk into the Ontario marketplace. Prior to the end of May 1999, Boardwalk announced the acquisition of a selected number of properties in Ontario. A portion of these units closed prior to the end of the fiscal year; however, revenue generated from these portfolios is not material and has had no impact on fiscal 1999 operations.

1999 Management's Discussion & Analysis

Stabilized Portfolio

Boardwalk continues to benefit from the effects of its revitalization process. Stabilized building rentals are defined as properties that have been owned for the entire 12-month period for both 1999 and 1998 fiscal years. The proportion of stabilized properties continues to show a dramatic improvement overall.

At May 31, 1999, Boardwalk had a total of 7,560 units currently classified as stabilized. This represents approximately 34% of all units that were owned at May 31, 1999, up from the 25% recorded in the 1998 fiscal year. Overall, Boardwalk's stabilized portfolio continues to show dramatic improvement over prior years' comparatives. Total revenue generated was approximately $56 million, up over 11% from last year's $49.9 million. Boardwalk's ongoing stabilization process continues to reap benefits as documented in the 1999 overall operating costs on the stabilized portfolio of approximately $14.2 million, representing a decrease of approximately 23% from the prior year's numbers.

Net rental income on stabilized units for 1999 totals $23.5 million, as compared to $12.9 million for the 1998 fiscal year, an increase representing approximately 82%. The reader should note at this point that comparison to the prior year's amounts, relating to the stabilized portfolio, in many cases may be compared to properties that in the first 12 months of operations would have been unstabilized, and as such, would be experiencing such events as higher than average operating expenses and slightly lower than average rental revenue generated.

Financing charges on stabilized units were approximately $18.3 million for 1999, as compared to $18.5 million for the 1998 fiscal year.

Property Held for Development and Resale

An important source of income for Boardwalk is generated from the sale of units that are classified as Property Held for Development and Resale. The units in this category, for the most part, are classified as mature properties, which implies limited capital appreciation remaining on a rental basis for these locations, in comparison to other more accretive investment opportunities. Once a property has reached this stage, it is either sold as an individual condominium unit, or through a single bulk-sale transaction. The proceeds are then reinvested in the Corporation and used to either acquire other selective multi-family properties or to assist in capital improvements and/or operations of the existing portfolio. Sales generated through this category were approximately $45.4 million for the 1999 fiscal year, as compared to $32.8 million for the 1998 fiscal year, up 38%. Net margin generated by these sales for the 1999 fiscal year was approximately $16.9 million as compared to $11.5 million for the 1998 fiscal year. A total of 849 units were sold in 1999 as compared to 583 units for the 1998 fiscal year. This increase in the number of units sold accounts for the increase in overall revenues as well as margins generated. The average selling price per unit was approximately $53,500 compared to $56,000 for the 1998 fiscal year. Net margins for the 1999 fiscal year of approximately $19,900 per unit were up slightly from the $19,700 recorded in 1998.

As previously noted, although an important source of revenue for the Corporation as a whole, sales of Property Held for Development and Resale are playing a decreasing role in overall operations. Of total revenue generated in 1999, only 24% was accounted for with respect to sale of these properties, as compared to 30% for the 1998 fiscal year. Total cash generated prior to corporate charges was approximately $64 million for 1999 as compared to $33.6 million for the 1998

fiscal year. Of this total, only 26% represents cash flow generated from Property Held for Development and Resale, as compared to 34% for the 1998 fiscal year.

Boardwalk continues to monitor the various markets in which it is currently active, and based on individual property performance and perceived opportunities, the Corporation will deploy the appropriate disposition strategy if deemed necessary. Regardless of the number of units sold, the Corporation's intentions are to continue in an expansionary mode. Accordingly, the number of units under ownership should not be decreased.

Corporate Charges

Boardwalk's overall corporate or administrative charges typically include those general costs that are not allocated on a site-specific basis. As is consistent with prior years, the current year's administrative expenses include the amount recorded as Saskatchewan's Large Corporations Tax. There are no amounts in this category which relate to specific management financing or acquisition fees. In 1999, total administrative expenses amounted to $10.4 million as compared to $6.8 million for the 1998 fiscal year. The increase in this amount is due to Boardwalk's growing cost of development and expansion of the Corporation's infrastructure. These expenses include such items as setting up regional distribution centers as well as the expansion of Boardwalk's associate base to assist in the acquisition and operation of these facilities. Boardwalk continues to focus and allocate resources to its information technology structure and all costs associated with this development, as well as maintenance, have been allocated to this category.

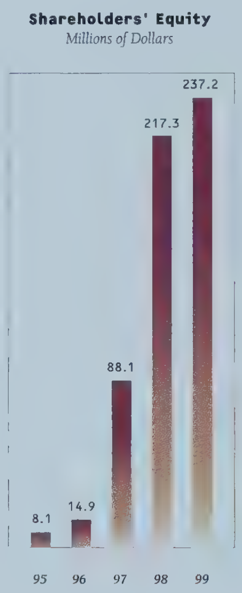
Analysis of Net Earnings

Boardwalk's recorded net earnings for 1999 were approximately $14.8 million as compared to $8 million for the 1998 fiscal year. Net earnings are determined by deducting amortization and related taxes from the Corporation's operating earnings. Amortization expense of approximately $26.1 million for the 1999 fiscal year, compared to $11.2 million in 1998, is up by approximately $14.9 million. This increase is due to the intensified acquisition activity in the 1999 fiscal year, as well as the annualization of those properties acquired in the 1998 fiscal year. Amortization expense also includes the amortization of prepaid legal and financing fees over a straight-line basis. Boardwalk's provision for deferred income taxes against operations is approximately 38% of operating earnings before income taxes. This rate is slightly lower than the combined basic Canadian federal and provincial income tax rate of about 44%, largely due to the permanent differences that arise as a result of the sale of specific pre-identified properties and Properties Held for Development and Resale. Actual cash taxes paid, which are deducted from Cash Flow from Operations, relate to the Corporation's liability with respect to Federal Large Corporations Tax at May 31, 1999. While the Corporation does not have current federal income tax liabilities payable due to loss carry forwards available, elimination of regular taxes payable on an on-going basis is dependent upon the nature of the operations and the asset management and tax planning strategies. Given the current level and nature of operations, the Corporation's existing tax-loss carry forwards should be sufficient to offset taxable income for the upcoming fiscal year. The Corporation will continue to actively manage its tax affairs.

1999 Management's Discussion & Analysis

Acquisition Activity

During 1999, Boardwalk acquired a total of 3,809 units. The Corporation sold 849 units under Property Held for Development and Resale. The total purchase price of these units was approximately $173 million, bringing an average per unit price of those units acquired during the 1999 fiscal year to approximately $45,400. In addition to these units acquired, Boardwalk has also contracted to acquire an additional 1,428 units scheduled to close subsequent to 1999 year-end but prior to the end of August 31, 1999 or the Corporation's first quarter in the 2000 fiscal year. The total purchase price of these additional units was approximately $71.3 million, or $50,000 per unit. Combining these two amounts, we note that during the 1999 fiscal year, Boardwalk had acquired, or was scheduled to close on, approximately 5,237 units for a total purchase price of approximately $244 million, or $46,600 per unit. On closing these units, Boardwalk will control over 23,800 units, representing approximately 19.9 million net rentable square feet. For the most part, the units acquired are located in major cities in western Canada.



One of the most significant advances for the Corporation during the 1999 fiscal year was the expansion out of its traditional western Canada base into new markets in eastern Canada, particularly in the cities of Windsor and London, in the province of Ontario. As in the past, as part of the acquisition process, Boardwalk performed a detailed analysis on each project to be acquired, including, when appropriate, an environmental review.

Capital Expenditures

It is Boardwalk's strategy to enhance, where possible, the array of products available to our customers. Boardwalk continues to review this portfolio and implements improvements designed to increase satisfaction for existing customers. The long-term intention of these enhancements is to generate additional revenue. These enhancements generally consist of a variety of internal and external upgrades, and may include improvements to all common areas, as well as upgrades to existing suites. The most recent phase of improvements to this type of interior project is timed as tenant units turn over. It has been Boardwalk's experience that when a building is in an unstabilized mode, it experiences a higher level of turnover and therefore, to stabilize this property, a higher level of capital improvement is required.

Exterior improvements may vary from extensive repainting to complete refitting of the exterior, including alterations to the existing building lines. During 1999, Boardwalk spent approximately $86 million on these enhancements. This represents approximately $3,600 per unit in Boardwalk's entire portfolio. Although this amount may appear excessive, the majority of Boardwalk's portfolio is still considered unstabilized, and as such, is subject to extensive interior and exterior renovation.

Boardwalk will continue to reinvest in its portfolio in ways that are designed to increase customer service and satisfaction, and in the long term, to increase operating cash flows. The extent to which the capital improvement program will be enhanced will vary upon the Corporation's overall growth and the type of units it acquires in the future. Included in the 1999 capitalization amount recorded is approximately $9.7 million of internally capitalized on-site wages. No amount was recorded during the comparable 1998 fiscal year as management felt at that time it did not have sufficient

information to make a reasonable estimate. This amount represents Boardwalk's best estimate as to the amount of capital improvement work that was performed during the year by Boardwalk's existing on-site operations staff. Capitalization does not include any administrative or otherwise supervisory salaries. This represents approximately 11% of the total capital projects completed during the 1999 fiscal year, further demonstrating Boardwalk's increased efficiency of internal operations over the external contracting of such facilities and resulting higher cost base.

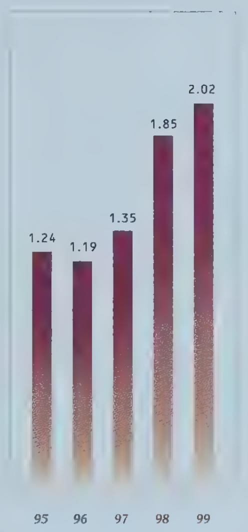
To continue maintaining the quality of Boardwalk's portfolio and preserve and enhance long-term value, Boardwalk will continue to pursue an on-going program of capital expenditures.

Liquidity and Capital Structures

Boardwalk's objective is to ensure, in advance, that we have ample capital resources to allow execution of our business plan. Capital resources are defined as a combination of mortgage debt, shared capital equity and internally generated equity. Our significant liquidity provides greater certainty for execution, which in turn gives the Corporation a competitive advantage in its negotiations for acquisition or enhancement investment. The conversion of lower-yielding mature properties into cash for redeployment into higher-yielding investments supports this objective.

Throughout the 1999 fiscal year, Boardwalk was successful in deploying equity raised in the 1998 fiscal year, in particular, $70 million raised in May of 1998 representing approximately 3.335 million shares at an equity price of $21 per share. To date, Boardwalk has operating facilities in excess of $48 million, approved up to a maximum of $103 million. Together with the Corporation's existing financing and cash generated from operations, Boardwalk feels it will be able to continue growth of its assets at an aggressive pace. Any future assistance provided by the issuance of additional external equity, combined with Boardwalk's strong market capitalization, augments the advantages of the Corporation's listing on the TSE 300 Index. Boardwalk's demonstrated ability to deploy this equity for accretive new acquisitions will further enhance shareholder returns. As in the past, Boardwalk continues to believe that the best investments for any additional dollar earned is through re-investment into acquisitions or for additional value-enhancing programs, and as such, Boardwalk has no dividend payout policy. In July of 1999, subsequent to year end, Boardwalk was successful in raising an additional $46 million. The offering itself was successful in that the entire offering and over-allotment of 3.1 million common shares at $14.90 per share were placed into investors' hands. This occurred despite a decrease in the appetite of the equity markets for new offerings. Funds raised through this offering will be used to assist in future acquisitions. In the short term, the amounts were applied to reduce existing acquisition lines.

Interest Rate Coverage
Ratio



Leverage

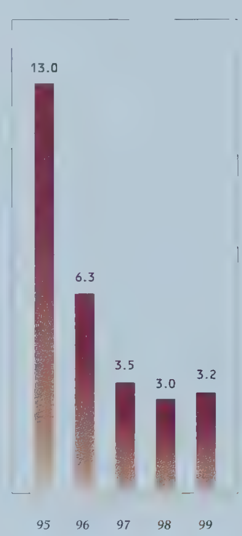
Boardwalk continues to use its current leverage policy of optimum debt levels. This policy is achieved through the use of NHA insurance, a program initiated by the Government of Canada through CMHC, which allows individuals and corporations in residential real estate to obtain insurance for a premium, on a selective property-by-property basis. The insurance lowers the risk of default to the lenders, a benefit which has been passed down to the mortgagor in the form of

1999 Management's Discussion & Analysis

lower interest rates. With this insurance in place, the Corporation has the ability to increase leverage to 85% of property value. Management is oriented towards retaining capital for re-investment in properties to expand the business as an alternative to significantly reducing mortgage debt.

Given the current economic interest rate environment, Boardwalk's present focus is long-term financing for five to 20 years, and as such, the Corporation has continued to stagger the maturity dates of its existing mortgage debt. The expressed leverage ratio is a ratio of long-term debt, or mortgage debt, as compared to total shareholders' equity or capital and has increased slightly from prior years, which demonstrates the Corporation's overall increased ability to leverage existing assets at existing lower financing rates, thereby maximizing return on equity and increasing overall shareholder value.

Debt to Equity
Ratio



Long-term Debt

Boardwalk's long-term debt consists mainly of low-rate, fixed-term mortgage financing. All amounts are secured by individual mortgages or debentures registered against real estate properties, and the maturity dates of this debt are staggered to lower the Corporation's overall interest rate risk. Current balances have increased dramatically over those recorded in the 1998 fiscal year, due mainly to the growth of the Corporation through the assumption of existing financing on acquisitions or the arranging of new financing on acquired buildings. Boardwalk's debt level has increased on a per unit basis and on a per square footage basis, mainly due to the Boardwalk program of adding value. During the unstabilized period, value is added to the property which facilitates new mortgage proceeds to be obtained on the increased property value. Although there has been an increase in the per unit charge, Boardwalk's overall weighted average debt has decreased dramatically over prior years. Amounts recorded on revenue-producing properties have decreased to 6.33% from the 6.45% recorded in the 1998 fiscal year. To put this into perspective, the annualized savings, based on the amounts recorded on the May 31, 1999 balance sheet, would total about $1.05 million. At May 31, 1999, the Corporation had $46 million in floating-rate debt. Due to our strategy of active asset management and redeployment of capital, the Corporation uses this portion of its debt on a floating-rate basis. The floating-rate debt gives Boardwalk a competitive advantage with available resources to enable further acquisitions or capital enhancements that offer well above-average rates of return.

To better maintain cost-effectiveness in flexibility of capital, Boardwalk continuously monitors short and long-term interest rates and if the environment warrants, the Corporation will take its limited short-term floating rate debt and lock it into longer-term fixed rates. Boardwalk's active management of its overall mortgage portfolio shows dramatic results as evidenced in the 1999 debt maturity review.

Currently, approximately 17% of Boardwalk's overall debt matures in the 2000 fiscal year. As in prior years, Boardwalk continues to evenly space the maturity of its debt and has pushed a substantial portion, over 39%, into the period subsequent to the year 2004. Boardwalk plans to meet these maturing obligations by replacing the maturing debt with new financing. Given the fact that Boardwalk's portfolio is NHA-insured, and there is a strong demand for mortgage-backed securities, this is not expected to pose a problem.

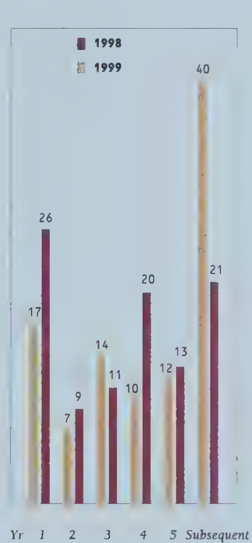
Outlook, Risks and Opportunities

The performance of Boardwalk's rental operations is affected directly by the supply of, and demand for, multi-family residential units. In macro-economic conditions such as those currently prevailing, and with the expected growth in the economy, business and consumer confidence and employment levels constitute the key drivers of this demand. Nineteen ninety-nine has again seen a lack of construction of new multi-family residential developments in Alberta and Saskatchewan markets where the majority of Boardwalk's portfolio is concentrated. To justify the cost of a significant change in the existing rental supply, existing market rental rates would require a significant upward adjustment, and, in some cases, rates would have to double. As markets approach this balance, it is expected rental rates will increase significantly. Management expects a continuation of these trends into the 2000 fiscal year, with ongoing benefits to Boardwalk's rental portfolio. Boardwalk is involved exclusively in multi-family residential real estate property, which is characterized by shorter-term leases of no more than 12 months' terms. These factors all result in an upward rental adjustment, which, combined with the annualization of newer property acquisitions and the continued stabilization of Boardwalk's core portfolio, will produce an overall positive effect on rental operations.

With Boardwalk's recent expansion into the eastern market, particularly in Ontario, one additional risk that must be addressed is existing legislation in the province of Ontario with respect to rent control, although, under the existing provincial government, the new legislation is referred to as "de-rent" control.

Existing controls limit the landlord's ability to increase tenants' rent by setting a pre-determined ceiling that increases on an annual incremental basis even if the rent adjustment is not passed on to the tenant. There are additional allowances for upward rent adjustments which are the direct result of a focused capital improvement program or an adjustment designed to catch up to existing rental ceilings. To respond to these issues, Boardwalk has adopted a unique approach by complementing the Corporation's proven knowledge and technology with local expertise covering geography, local markets and regional legislation.

Debt Maturity
Percent



Risk Management

Boardwalk's overall performance continues to be affected by supply and demand for multi-family residential real estate in Canada. Macro-economic conditions as previously discussed will dictate or drive the demand for continued broad-based improvement. Net absorption and lower costs have also assisted the Corporation in improving performance. The potential for reduced rental revenue exists in the event that Boardwalk isn't able to maintain its properties at a high level of occupancy, or in the event of a downturn in the economy which would result in lower rents. Boardwalk has minimized these risks by taking the following steps:

- ❖ **increasing customer satisfaction**
- ❖ **diversifying its portfolio across Canada, particularly with the recent developments of expansion into the eastern market, and thus lowering exposure to regional economic swings**

1999 Management's Discussion & Analysis

- **acquiring properties only in desirable locations where vacancy rates are historically at or below city-wide averages**
- **holding a balanced portfolio which includes a variety of multi-family building types including high-rise, townhouse and walkups, each with their own market niche**
- **maintaining a wide variety of suite mix. Boardwalk has a well-balanced unit type including bachelor suites, one, two, three and four-bedroom units**
- **building a broad and varied customer base, thereby avoiding economic dependence on larger-scale tenants**
- **focusing on affordable multi-family housing, which is considered a stable commodity**
- **developing a specific rental program characterized by rental adjustments that are the result of enhanced service and superior product**
- **developing a management team in Ontario with experience in this local marketplace, and combining this experience with Boardwalk's existing operations and management expertise**

Interest Rate Risk

Financing for real estate during 1999 has continued to benefit from the improvement in overall real estate markets. Participation by traditional providers of real estate capital, such as insurance companies and pension funds, lowers current interest rates and narrows corporate borrowing spreads. Although current markets are concerned with the risk of interest rate increases as a way to head off inflation, management believes that these are short-term concerns which will be corrected in the near future. Boardwalk does not believe in speculating on interest rate fluctuations and has therefore taken a long-term view, locking in rates and terms for periods of between five and 20 years, where deemed appropriate. In addition, Boardwalk has a strong working relationship with CMHC, resulting in the majority of the Corporation's mortgages being insured under the NHA mortgage program. This added level of assurance offered to lenders allows the Corporation to obtain the best possible financing and interest rates. These mortgages are also insured for their full amortization, virtually eliminating the potential for the lender to call the loan prematurely. The NHA insurance is further protection against any possible failure of the lending institution. The Corporation is also able to obtain additional financing on existing buildings in excess of conventional amounts, and therefore increase return on equity to shareholders.

Year 2000

In fiscal 1999, Boardwalk initiated a committee designated to review and develop a plan to assess, manage and monitor Boardwalk's exposure to the Y2K issue. Boardwalk continues to review findings and recommendations of industry associations and the requirements of regulatory authorities. Boardwalk's Y2K plan comprises the following:

- **systems inventory**
- **identification of non-compliant systems**
- **conversion and testing**
- **continuing industry plans**

Boardwalk has completed its inventory assessment of its critical internal information and building operation systems. As system upgrades are implemented through the ordinary course of acquisitions and operations, and as acquisitions are made, the inventory and assessment process will continue. Critical internal communication and operation

systems, as well as financial recording systems, are generally Y2K compliant as a result of recent upgrading. Boardwalk continues to obtain vendor compliance documentation, and has limited internal customization to ensure these added systems will be Y2K ready. Boardwalk has therefore concluded that a widespread testing of all information systems is not warranted or cost-effective. However, given the critical nature of financial reporting of property management systems, these systems have been tested and been determined to be compliant. In addition, to address issues that may arise when systems interface with one another, Boardwalk continues to test internal communication networks.

Building operations can be affected by Y2K issues in terms of embedded systems (equipment controlled by micro chips such as elevators, heating and ventilation, security systems). Within the Corporation's existing operating portfolio, Boardwalk attempts to obtain Y2K compliance from its vendors. Conversion of non-compliant systems or work-around solutions are being implemented and will continue as testing progresses. With respect to new property acquisitions, Boardwalk has implemented a Y2K status report on the buildings as part of the overall due diligence process. At this time, costs associated with the testing and conversion of non-compliant information technology and building operations are not expected to have a material impact on the financial position of the Corporation as a whole. Boardwalk, similar to most other corporations, relies on third-party providers for key services such as electrical power, gas, water and telecommunication services. Interruption of these services due to Y2K issues could affect the Corporation's overall operations. The Corporation has initiated a process of gathering information as to the status of third-party providers' compliance efforts. Boardwalk's rental revenue is derived from a variety of separate sources, as it has no reliance on any specific tenant and as such is not closely tied to the success of any particular customer. The Corporation's diverse customer base inherently serves as a hedge against any short-term disruption of business. Given the interdependency that exists between tenants, suppliers, financial service providers and other third parties, the Corporation cannot, with absolute assurance, qualify all financial and operational consequences related to the Y2K issue. Furthermore, insurance coverage to protect against losses arising from system failures directly related to year 2000 date recognition is generally unavailable. While the Corporation believes its current level of compliance will be effective if Y2K modification and conversions are completed on time by the Corporation, the Y2K issue could have a material impact on the operations of the Corporation on, before or after the year 2000. In its ongoing efforts to address these issues, the Corporation will continue to monitor this issue.

Property Valuation

It is Boardwalk's policy to continually review the value of its assets in order to ensure the amounts recorded are in accordance with generally accepted accounting principles. Those assets, which are held for investment purposes, are reported via the lower of cost and net recoverable value. Cost includes all amounts relating to the acquisition and improvement of these properties. Net recoverable amounts represent the undiscounted estimated future cash flow expected to be received from ongoing use of the property and its residual value. To arrive at this amount, the Corporation projects the cash flow over a maximum of ten years and includes the proceeds of the residual sale at the end of this period. The projections take into account a specific business plan for each property and management's best estimate for the probable set of economic conditions anticipated in the prevailing market. The current year's reviews revealed that there are no significant adjustments to existing values required. Boardwalk has undertaken to provide an estimated required replacement value based on the construction costs for the entire portfolio, which includes those assets acquired subsequent to year end. On this basis, it is estimated the Corporation replacement value is between the range of $2 and $2.5 billion.

1999 Management's Discussion & Analysis

A Look Ahead - Boardwalk Then And Now

Overall, the Canadian economy continues to improve. CMHC estimates overall vacancy rates for Canada to continue to trend downward. Boardwalk estimates that there are currently approximately two million multi-family residential units across the country, and only a minimum amount of new construction is expected in these markets. Alberta, Saskatchewan and Ontario account for approximately 1.3 million of these units, and, as such, Boardwalk controls still less than 1.0% of the entire overall market in Canada. Boardwalk commenced operations in April of 1994, and has since witnessed substantial growth and diversification. As a result of Boardwalk's strategy of acquiring under-performing properties, a period of stabilization is required following such acquisition. During the period, both service and product enhancements are initiated, resulting in a more desirable product which is then positioned for rental enhancement. Boardwalk's overall strategy will continue to focus on both product and service enhancement for existing tenants with the goal of achieving utmost customer satisfaction. The following analysis is intended to provide an understanding of the growth Boardwalk has achieved in each of its major markets. It will also discuss significant economic factors that affect demand for Boardwalk's product and services.

In Summary

Nineteen ninety-nine was a year during which Boardwalk believes it was able to achieve a number of important initiatives as part of the Corporation's overall mandate to focus on our customers and, in turn, increase shareholder value. These elements are part of Boardwalk's overall core business strategy and have been designed not only to benefit past and current years, but also to benefit future years' operations and continue to add value for years to come.

Some of these initiatives are:

- **Boardwalk is constantly reviewing existing market and prevailing conditions to indicate that the enhancements implemented by the Corporation continue to lead to a significant appreciation in overall asset value.**
- **Equity released from the sale of these projects is then re-invested in the Corporation to be deployed in higher-yielding real estate investments**
- **Boardwalk continues to focus on the customer through the implementation of numerous service and product areas designed firstly, to increase convenience and service, and secondly, to streamline existing administrative operations**
- **Continued focus on the acquisition of existing multi-family product. Boardwalk does not develop new multi-family residential real estate supply**
- **An aggressive financing strategy designed to maximize the effect of using NHA insurance will continue to lower the cost of debt to the Corporation**
- **Capital enhancement program to assist Boardwalk in meeting its overall corporate mission**

Boardwalk's challenge for the future will be to continue to create value-added products and services to meet our customers' needs, as well as continue to enhance existing operations to make them as efficient as possible. With Boardwalk's existing market experiencing strong economic advancement, and newly entered markets experiencing strong economic advancements and the improvements to service through capital enhancement, we will be well positioned for continued appreciation in shareholder value.

Our Accounts

"We believe morality and profitability should go hand in hand, and we are keenly aware of the human element in our business".

Financial Reports

Management's Report

To the Shareholders of Boardwalk Equities Inc.

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of chartered accountants, has been engaged to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

Sam Kolias
President and Chief Executive Officer

Roberto A. Geremia
Vice President Finance and Chief Financial Officer

August 12, 1999

Auditors' Report

To the Shareholders of Boardwalk Equities Inc.

We have audited the consolidated balance sheets of Boardwalk Equities Inc. as at May 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at May 31, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Calgary, Alberta

August 12, 1999

Consolidated Financial Statements

Consolidated Balance Sheets

As at May 31 *(Thousands of dollars)*		1999	1998
Assets	Note		
Revenue producing properties	2	$ 1,064,781	$ 856,427
Properties held for development and resale	2	28,882	30,819
Mortgages and accounts receivable	3	23,513	9,428
Other assets	4	30,633	16,158
Cash and short-term investments		–	17,054
		$ 1,147,809	$ 929,886
Liabilities			
Mortgages payable	5	$ 867,757	$ 645,652
Accounts payable and accrued liabilities		14,595	11,087
Refundable security deposits and other		6,382	5,541
Bank indebtedness		4,388	–
Payable on property acquisitions		182	42,995
Income taxes payable		1,170	1,523
Deferred income taxes		16,126	5,763
		910,600	712,561
Shareholders' Equity			
Share capital	6	210,628	205,551
Retained earnings		26,581	11,774
		237,209	217,325
		$ 1,147,809	$ 929,886

See accompanying notes to the consolidated financial statements

Approved by the Board:

Sam Kolias,
Director

David V. Richards,
Director

Consolidated Financial Statements

Consolidated Statement of Earnings and Retained Earnings

For the years ended May 31, *(Thousands of dollars, except per share amounts)*	1999	1998
Revenue		
Rental income	$ 140,590	$ 75,407
Sales – properties held for development and resale	45,382	32,768
	185,972	108,175
Operating expenses		
Revenue producing properties	46,930	27,276
Cost of sales – properties held for development and resale	28,532	21,273
Administration	10,444	6,844
Financing costs	46,401	26,055
Amortization	26,082	11,169
	158,389	92,617
Operating earnings before income taxes	27,583	15,558
Large corporations taxes	2,414	1,878
Deferred income taxes	10,362	5,693
Net earnings	14,807	7,987
Retained earnings, beginning of year	11,774	3,787
Retained earnings, end of year	$ 26,581	$ 11,774
Earnings per share – Basic	$ 0.32	$ 0.20
– Fully diluted	$ 0.32	$ 0.20

Consolidated Statement of Cash Flow from Operations

Net earnings	$ 14,807	$ 7,987
Items not affecting cash		
Amortization	26,082	11,169
Deferred income taxes	10,362	5,693
Cash flow from operations prior to changes in non-cash working capital	$ 51,251	$ 24,849
Per share – Basic	$ 1.11	$ 0.63
– Fully diluted	$ 1.11	$ 0.63

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Financial Position

For the years ended May 31, *(Thousands of dollars, except per share amounts)*	1999	1998
Cash obtained from (used in):		
Operating activities		
Cash flow from operations	$ 51,251	$ 24,849
Net change in non-cash working capital	(26,129)	(6,708)
Decrease (increase) in properties held for development and resale	1,937	(12,481)
	27,059	5,660
Financing activities		
Issue of common shares, net of offering costs	6,569	121,199
Repurchase of common stock	(1,492)	–
Mortgage financing assumed	58,463	186,502
Mortgage proceeds from financing	354,522	233,901
Mortgage payments upon refinancing	(154,002)	(62,680)
Mortgages discharged on sale	(19,185)	(16,972)
Mortgage principal reduction	(17,692)	(5,441)
Funds held in trust	210	53,115
	227,393	509,624
Investing activities		
Acquisitions of revenue producing properties	(172,514)	(523,886)
Project improvements to revenue producing properties	(86,318)	(30,238)
Transferred to real property held for development	25,751	33,021
Payable on property acquisitions	(42,813)	23,595
	(275,894)	(497,508)
(Decrease) increase in cash balance during the year	(21,442)	17,776
Cash balance (bank indebtedness), beginning of year	17,054	(722)
(Bank indebtedness) cash balance, end of year	$ (4,388)	$ 17,054

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

For the years ended May 31, 1999 and 1998 *(tabular amounts in thousands of dollars)*

NOTE 1 Significant Accounting Policies

(a) *Operations*

Boardwalk Equities Inc. ("the Corporation") is a real estate corporation that specializes in multi-family residential housing.

(b) ***Basis of presentation and principles of consolidation***

The Corporation's accounting policies and its standards of financial disclosure conform with the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC") and the handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The consolidated financial statements include accounts of the Corporation and of all subsidiaries of the Corporation.

(c) *Revenue recognition*

(i) Revenue from a rental property is recognized once the Corporation has attained substantially all of the benefits and risks of ownership of its rental properties. Rental revenue includes rents, parking and other sundry revenues.

(ii) Revenue on properties held for development and resale is recognized when all conditions of the purchase agreement have been met, a purchase deposit has been received and there is reasonable assurance as to the collectability of the outstanding amount.

(d) *Real estate properties*

(i) Revenue producing properties

Revenue producing real estate properties, which are held for investment, are stated at the lower of cost, less accumulated depreciation or "net recoverable amount". Cost includes all amounts relating to the acquisition and improvement of the properties. All costs associated with upgrading of the existing facilities, other than ordinary repairs and maintenance, are capitalized and amortized as project improvements.

The "net recoverable amount" represents the undiscounted estimated future net cash flows expected to be received from the ongoing use of the property plus its residual value. To arrive at this amount, the company projects the cash flow over a maximum of 10 years and includes the proceeds from the estimated residual sale at the end of that period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Properties held for development and resale

The Corporation capitalizes all direct costs, net of related revenue. Direct costs include property taxes, administration costs, finance costs and other costs associated with the cost of Properties held for development and resale. Real estate properties held for development and resale are recorded at the lower of cost or net realizable value.

(e) Amortization

Revenue producing properties are amortized at rates designed to amortize the cost of the properties over their estimated useful lives as follows:

Building	4%	-	Sinking fund, 50 years
Equipment	20%	-	Declining balance
Parking lots	8%	-	Declining balance
Project improvements	20%	-	Declining balance

Amortization of the buildings is determined using the sinking fund method under which an increasing amount consisting of a fixed annual sum together with interest compounded at a rate of 4% is charged to income so as to fully depreciate the buildings over their estimated life of 50 years. Legal and CMHC insurance fees are amortized over 25 years on a straight line basis. Legal fees on refinancings are amortized on a straight line basis over the life of the new loan.

(f) Income taxes

The Corporation follows the tax deferral method in providing for income taxes, whereby the income tax provision is based on the income reported in the accounts. Under this method, deferred taxes arise primarily as a result of providing for amortization for income tax purposes on a different basis than for accounting purposes. In 1999 the provision for income taxes differs from the expected amount when the combined Canadian federal and provincial rates are applied primarily because a portion of the net gains arising from the sale of properties is not subject to tax.

(g) Per share calculation

Basic net earnings and cash flow from real estate operations per share were calculated based on the weighted average number of shares outstanding for the year. The calculation of net earnings and cash flow from real estate operations per share on a fully diluted basis considered the potential exercise of outstanding share purchase options to the extent each option was dilutive.

(h) Risk management and fair value

RISK MANAGEMENT

The Corporation is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its tenants. These risks are managed as follows:

(i) Interest rate risk

Interest rate risk is minimized through management's constant review of demand and maturing secured mortgages. If market conditions warrant, the Corporation has the ability to convert its existing demand debt to fixed rate debt. At May 31, 1999, the Corporation had demand debt outstanding of $46 million (1998 - $ nil). In addition, the Corporation structures its financings so as to stagger the maturities of its debt, thereby minimizing the Corporation's exposure to interest rate fluctuations.

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Corporation mitigates this risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect to all new leasing. In addition, where legislation allows, the Corporation obtains a security deposit to assist in a potential recovery requirement.

FAIR VALUE

In accordance with the disclosure requirements of the CICA Handbook, the Corporation is required to disclose certain information concerning its "financial instruments", defined as a contractual right to receive or deliver cash or another financial asset. The fair value of the majority of the Corporation's financial assets and liabilities, representing net working capital, approximate their recorded values at May 31, 1999 due to their short term nature. In these circumstances, the fair value is determined to be the market or exchange value of the assets or liabilities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates. The significant financial instruments of the Corporation and their carrying values as of May 31, 1999 are as follows:

	Carrying Value	Fair Market Value
Mortgages and accounts receivable	$ 23,513	$ 23,513
Mortgages payable	$ 867,757	$ 883,451

The fair value of the Corporation's mortgages payable exceeds the recorded value by approximately $16 million at May 31, 1999 due to changes in interest rates since the dates on which the individual mortgages were assumed. The fair value of the mortgages payable has been estimated based on the current market rates for mortgages with similar terms and conditions.

(i) *Measurement uncertainty*

The accounting process requires that management make a number of estimates including the following:

(i) economic useful life of buildings for purposes of calculating depreciation as disclosed in note 1(e)

(ii) forecast of economic indicators in order to measure fair values of buildings for purposes of determining "net recoverable amount" under generally accepted accounting principles as discussed in note 1(d)

(iii) amount of capitalized on-site wages which relate to project improvements, as discussed in note 2

Actual amount may differ from these estimates.

Management periodically reviews the useful lives of its properties to determine the adequacy of its depreciation policy. Also, economic indicators are monitored to ensure that current information is used in projections of cash flow.

(j) *Comparative figures*

Certain comparative figures have been reclassified to conform with the current year's presentation.

NOTE 2 Real Estate Properties

	1999	1998
Revenue producing properties	$ 1,103,970	$ 871,444
Less: accumulated amortization	(39,189)	(15,017)
	1,064,781	856,427
Properties held for development and resale	28,882	30,819
	$ 1,093,663	$ 887,246

Included in revenue producing properties is $9.7 million (1998 - $nil) of capitalized wages relating to project improvements. Included in the cost of properties held for development and resale are capitalized financing costs of $1.5 million (1998 - $1.2 million) less net operating revenue of $1.6 million (1998 - $2.1 million). Real estate properties are pledged as security against mortgages payable.

NOTE 3 Mortgages and Accounts Receivable

The mortgages and accounts receivable comprise an aggregate amount of $23.5 million (1998 - $9.4 million) which come due periodically up to May 31, 2003. The Corporation is currently earning a weighted average interest rate of 6.3% (1998 - 6.5%) on these amounts.

NOTE 4 Other Assets

	1999	1998
Unamortized deferred financing costs	$ 24,811	$ 13,253
Deposits on properties	2,925	214
Inventory	2,270	701
Prepaid and other	627	1,990
	$ 30,633	$ 16,158

NOTE 5 Mortgages Payable

(a) Revenue producing properties

		1999		1998
Mortgages payable bear interest at a weighted average rate of 6.33% (1998 - 6.45%) per annum, payable in monthly principal and interest installments totalling $5.8 million (1998 - $4.7 million) maturing from demand to 2019 and are secured by specific charges against specific properties.	$	**850,520**	$	628,186
(b) Properties held for development				
Mortgages payable bear interest at a weighted average rate of 7.09% (1998 - 7.10%) per annum, payable in monthly principal and interest installments totalling $120,000 (1998 - $133,000), maturing from 2000 to 2002 and are secured by specific charges against specific properties.		**17,237**		17,466
	$	**867,757**	$	645,652

(c) Demand facilities

The Corporation has two separate demand facilities with two separate financial institutions. These facilities are in the form of acquisition and operating lines. These demand facilities are secured by a pledge of specific properties with a carrying value of $146.4 million. The combined maximum varies with the value of pledged assets to a combined maximum not to exceed $ 102.5 million (1998 - $57.5 million), with $46 million outstanding as at May 31, 1999 (1998 - $nil). These facilities carry an interest rate of prime plus 3/4% per annum, and have no fixed terms.

Estimated principal payments required to meet mortgage obligations as at May 31, 1999 are as follows:

		Revenue Producing Properties		Properties Held for Development and Resale		Total
2000	$	150,996	$	240	$	151,236
2001		51,993		12,485		64,478
2002		125,227		93		125,320
2003		85,338		4,419		89,757
2004		100,543		–		100,543
Subsequent		336,423		–		336,423
	$	850,520	$	17,237	$	867,757

NOTE 6 Share Capital

(a) *Authorized:*

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

Issued:

Preferred Shares

The Corporation issued 5,604,956 preferred shares, with a face value of $1.00 per share and a face rate of 0%, in conjunction with the acquisition of certain properties. These preferred shares are offset by a non-interest bearing note reveivable from the holder for the equivalent amount. Both the preferred shares and the note receivable are retractable at either parties initiative and have both been offset for financial statement presentation, and therefore excluded from accounts receivable and shareholders' equity.

Common Shares

	Shares		Amount
May 31, 1999	46,555,143	$	210,628
May 31, 1998	45,459,999	$	205,551

Details of shares issued are as follows:

	Shares		Amount
May 31, 1997	15,813,820	$	30,354
1998			
On exercise of warrants	3,000,000	$	55,500
On exercise of stock options	71,701	$	499
Stock dividend	18,885,521	$	–
On issue of equity	3,300,000	$	52,800
On acquisition of properties	19,730	$	365
On issue of equity	3,335,000	$	70,035
On exercise of stock options	1,034,227	$	587
Less expenses relating to issue of equity, net of income taxes of $2.5 million	–	$	(4,589)
	45,459,999	$	205,551
1999			
On acquisition of properties	102,462	$	1,635
On exercise of stock options	1,106,482	$	4,934
Share buy-back	(113,800)	$	(1,492)
May 31, 1999	**46,555,143**	**$**	**210,628**

(b) ***Stock options***

The Corporation has a stock option plan that provides for the granting to directors, officers and associates of the Corporation options to purchase up to 4,000,000 Common shares. As at May 31, 1999, there are a total of 3,684,277 (1998 - 2,832,270) options issued to directors, officers and associates. The exercise prices range from $2.10 to $22.92. These options expire periodically up to May 11, 2009 .

NOTE 7 Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a period. Date-sensitive systems may recognize the period 2000 as 1900 or some other date, resulting in errors when information using period 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

NOTE 8 Subsequent Events

(a) ***Property acquisitions***

Subsequent to May 31, 1999 the Corporation has contracted to acquire 1,157 units for an aggregate purchase price of $61.7 million. The acquisitions were financed through cash of $18.1 million and the combination of new financings and the assumption of existing mortgages and vendor mortgages.

(b) ***Stock options***

Subsequent to May 31, 1999 the Corporation issued 290,000 share options to officers and associates of the Corporation. These options have a five year vesting period with 1/5th vesting on each anniversary date. These options expire up to August 2009, with exercise prices ranging from $14.73 to $15.79.

(c) ***Share issue***

On July 6, 1999 2,700,000 shares were issued to a prospectus filed under applicable securities legislation at a price of $14.90 per share. An overallotment of 405,000 shares, at the same price of $14.90 per share, was granted to, and subscribed by, the underwriters. The net proceeds of the issue of $44.4 million will be used for general corporate purposes and to assist in the funding of future acquisitions.

Our Guidance & Support

"We believe that persistent loyalty and dedication to our corporate goals is due largely to our belief in the intrinsic value of our people, all of whom are treated with respect and dignity".

Officers & Management

Sam Kolias
President & Chief Executive Officer

George J. Reti
Executive Vice President

Roberto A. Geremia
Chief Financial Officer & Vice President Finance

William Chidley
Senior Vice President – Corporate Development

Kevin P. Screpnechuk
Vice President, Acquisitions & Mortgages

Mark Kornak
Vice President & Chief Information Officer

Van Kolias
Vice President, Quality Control

Jim McKibbin
Vice President Operations – Rental

Larry Hamm
Vice President Operations – Maintenance

Shaun Renneberg
Vice President – Capital Projects

Greg Rowland
Vice President – Financial Reporting

John Dill
Vice President – Eastern Acquisitions

Massimo Geremia
Director – Investor Relations

Stuart M. Olley
Corporate Secretary

Team Boardwalk

"A successful firm can manage without technology, despite its tremendous importance, but it would falter without quality people".

Seated Left to Right: Rob Geremia, Larry Hamm, George Reti, Kevin Screpnechuk

Standing Left to Right: William Chidley, Jim McKibbin, Sam Kolias, Massimo Geremia, Mark Kornak

Away on business: Greg Rowland, Van Kolias, Shaun Rennenberg, John Dill

Boardwalk Equities Inc.

1 9 9 9 ANNUAL REPORT

To Our Readers:

Your feedback is important to us. To ensure the content of our Annual Report meets your needs as well as our own, we would appreciate your taking a moment to answer the following questions and mail this reply card.

Are you a:

- ❐ Shareholder
- ❐ Employee
- ❐ Analyst, portfolio manager, financial advisor
- ❐ Prospective investor

How much of the report did you read?

❐ < 5% ❐ 5-10% ❐ 10-25%

❐ 25-50% ❐ 50-75% ❐ > 75%

Please rate each section of the report on a scale of 1–3

Section of report	Did you read it Yes/No	Length 1–Short 2–Right 3–Long	Usefulness 1–Not 2–Avg 3–Very	Comments How could we improve?
Letter to Shareholders				
Review of Operations				
MD & A				

Please rate the report overall

❐ Poor ❐ Fair ❐ Good ❐ Very Good

Any general comments on the report or on our strategies?

Thank you.

BOARDWALK EQUITIES INC.

Boardwalk Equities Inc.

Suite 200,

1501 - 1st Street S.W.

Calgary, Alberta

T2R 0W1

Attention: Mr. Massimo Geremia

Corporate Information

Executive Offices

Suite 200, 1501 - 1st Street SW
First West Professional Building
Calgary, Alberta T2R OW1
Telephone: (403) 531-9255
Facsimile: (403) 531-9565
Fax on Demand: (403) 531-9321
Website: — http://www.bwalk.com

Board of Directors

Sam Kolias
Calgary, Alberta
George J. Reti
Calgary, Alberta
Van Kolias
Calgary, Alberta
Kevin P. Screpnechuk
Calgary, Alberta
A. Gordon Stollery
Calgary, Alberta
Paul J. Hill
Regina, Saskatchewan
David V. Richards
Calgary, Alberta
Michael D. Young
Dallas, Texas

Solicitors

Stikeman, Elliott
1500 Bankers Hall
855 – 2nd Street SW
Calgary, Alberta T2P 4J7
Butlin Oke & Roberts
100, 1501 - 1st Street SW
Calgary, Alberta T2R 0W1

Bankers

Toronto Dominion Bank
340 - 5th Avenue SW
Calgary, Alberta T2P 2P6
Alberta Treasury Branches
2140 - 34 Avenue SW
Calgary, Alberta T2T 5P6

Auditors

Deloitte & Touche LLP
2400, 700 - 2nd Street SW
Calgary, Alberta T2P 0S7

Registrar & Transfer Agent

The Montreal Trust Company of Canada
600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3S8

Stock Exchanges

The Alberta Stock Exchange
The Toronto Stock Exchange
The Montreal Stock Exchange
Trading Symbol: **BEI**

BOARDWALK

Boardwalk Equities Inc. — 1999 Annual Report

Suite 200, 1501 - 1st Street SW
First West Professional Building
Calgary, Alberta T2R OW1
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"Our mission — to efficiently provide the best value in carefree living at competitive prices and utmost customer satisfaction".